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TRADE AND DEVELOPMENT BOARD
Standing Committee on Commodities
Second session
Geneva, 31 January 1994
Agenda items 3, 4, 5, 6, 7 and 8

Draft agreed conclusions

1. After reviewing developments in the international commodity economy, the Committee noted that the difficulties faced by commodity exporters in general, and more especially by developing countries and the least developed countries which are heavily dependent on commodity export earnings, continue unabated. Developing countries, especially those dependent on commodities, suffered significant setbacks in the 1980s resulting mainly from very depressed commodity prices. In the 1990s, prices have continued to fall in real terms for most commodities and in nominal terms for many. For a large number of commodities, export values have not expanded significantly. As a result, many developing countries continue to experience large shortfalls in their commodity export earnings, in a context in which only very limited success has been achieved in efforts at economic diversification.

2. The Committee further observed that in many commodities basic problems underlying depressed prices are,among others, lack of market access, demand recession and the existence of structural oversupply leading to large stock overhangs. The latter stems from increased productivity in certain countries, the entry of new and efficient producers, pressure to increase exports resulting from structural adjustment programmes and foreign debt service, expansion of metal exports from Eastern Europe, and, in the case of agricultural commodities, high levels of producers' support in developed countries.

3. The Committee welcomed the successful conclusion of the Uruguay Round, and considered it as the basis to enhance multilateral trade disciplines in the field of commodities, while taking into account the special circumstances of the least developed countries.

4. The Committee recognized that commodity markets are subject to significant distortions that prevent their functioning as optimal allocators of resources. Such distortions may come from market imperfections, notably imperfect information, barriers to entry and to exit; from inappropriate interventions in commodity markets; from externalities, notably environmental; and from difficulties in securing market access.

5. The Committee noted that existing mechanisms to tackle commodity problems have proved inadequate. On the other hand, the Committee also noted with satisfaction that there have been positive developments in the field of producer and consumer co-operation. It noted in particular, the successful negotiation in UNCTAD of new international agreements on sugar and cocoa; the conclusion of the negotiation on tropical timber; the extension and adoption of a protocol amending the international agreement on olive oil and table olives; and the agreement establishing the International Copper Study Group. It further noted that preparations are well under way for the Conference to renegotiate the International Natural Rubber Agreement. The Committee noted with interest the efforts at international cooperation for supply rationalization, particularly in situations of structural over-supply; and recognized that such rationalization may take a number of forms, including intergovernmental exchanges of information. The participation of both producers and consumers in efforts at introducing a production policy within the International Cocoa Agreement was welcomed.

6. The Committee noted that the existence of futures markets helped to increase the transparency of markets and expressed its appreciation for both the work done by the Group of Experts on Commodity Exchanges pursuant to paragraph 213 of the Cartagena Commitment, as reported in the two documents presented to the Committee, and for the presentations and clarifications of those Experts present in the informal session. It observed that, when appropriate, developing countries and countries in transition either individually or regionally could benefit from exploring the possibilities for establishing commodity futures markets or for using existing exchanges.

7. The Committee noted the difficulties being experienced by existing compensatory financing facilities, which to a large degree were the result of their having to cope with problems they were not intended to solve at their establishment. In this connection, the Committee observed that such facilities were designed to provide short-term assistance for temporary, reversible shortfalls and not to cope with structural changes as indicated by sustained declines in export earnings; and that distinguishing whether shortfalls were cyclical or structural was difficult. The Committee noted, therefore, that compensatory financing facilities should be viewed as but one (short-term) instrument in a range of measures spanning different time horizons.

8. The Committee observed that several conditions were necessary for the success of horizontal or vertical diversification, among which were: (i) appropriate national policies, particularly as regards the macroeconomic framework, government services and measures to encourage and facilitate active private sector initiatives; (ii) liberalised market access, including reduction of tariff escalation; (iii) financial and technical support from the international community; and (iv) overcoming and removing barriers to exit.

9. The Committee noted with great concern UNCTAD's growing difficulties in securing sufficient financial resources to discharge its technical assistance responsibilities as a result of the dramatic decline of UNDP funding, which was only partly compensated by contributions made by donor governments, to which the Committee expressed its recognition.

10. The Committee agreed that the problems of the international commodity economy should be addressed in the context of market-oriented approaches, with a view to achieving a better functioning and enhanced transparency of the international commodity economy, greater diversification of the commodity sector in developing countries and better management of natural resources in order to achieve sustainable development.

11. The Committee ascertained that a substantial degree of consensus has emerged around the preceding points, but that further research and policy analysis as well as intergovernmental interaction for consensus-building are required in order to achieve greater policy specificity and concreteness.

12. The Committee agreed that the removal of commodity-market distortions calls for sound, compatible and coherent market-oriented policies, particularly at the national and international levels; for economic and policy instruments recognizing the specificity of commodity and country situations; and for a strengthening of producer/consumer cooperation. In particular, areas in which concerted action might be necessary include information and market transparency; improving market mechanisms for risk management and facilitating and supporting participation of developing countries in them; support for diversification at national and international levels; support for sustainable development, including the environmentally sound management of natural resources; and strengthened technical cooperation efforts covering all of the above.

13. The Committee agreed that governments and those operating in commodity markets, especially in developing countries and countries in transition, needed to become more aware of the potential uses of market-based risk management instruments and of the risks associated with their use. To enhance such awareness, the Committee:

(i) endorsed the proposals of the Group of Experts concerning policy, areas requiring further investigation and training/advice/information, contained in document TD/B/CN.1/10/Add.1; and taking due account of the overall resources of UNCTAD, it urged UNCTAD and the World Bank to continue and intensify their efforts on training/advice/information, avoiding duplication and cooperating closely with other United Nations entities, relevant international organisations and agencies, and the private sector;

(ii) requested the Secretary-General of UNCTAD to forward the relevant policy proposals of the Group of Experts to the responsible authorities within member countries; and

(iii) agreed that, given the highly technical nature of this work, it should be pursued within existing resources through an Ad Hoc Group of Experts which should meet once but at the latest before the fourth session of the Committee. It was also agreed that member governments encourage their public and private sectors to participate in the work of this Group.

14. The Committee agreed to continue to review developments in compensatory

financing facilities and to analyze further the problems stemming from commodity-related export earnings shortfalls of developing countries, particularly the least developed countries.

15. The Committee agreed to pursue its examination of diversification by focusing on:

(i) analysis of national experiences, notably examples of successful horizontal and vertical diversification and of the problems involved in crop substitution;

(ii) analysis of the implications of the results of the Uruguay Round on diversification prospects for developing countries;

(iii) examination of the need for financial and technical assistance to developing countries, particularly the least developed countries, in achieving diversification; and

(iv) analysis of the role of barriers to exit in impeding diversification among private sector commodity producers.

16. The Committee attached particular importance to the issue of fostering sustainable development in the commodity field and agreed that the following required special attention in this respect:

(i) examination of national experiences in terms of environmental impacts of commodity production, in particular the determinants of these impacts and their relationship with economic policies and market conditions, and the facilitation of exchange of experiences in this regard;

(ii) collection and dissemination of information regarding natural products claimed to have environmental advantages, with a view to expanding the utilization of, and international trade in, such products;

(iii) analysis of the economic implications of the internalization of environmental externalities with respect to commodities and study of possible support mechanisms for such internalization, in particular

at the international level, taking into account logistical aspects concerning the transportation of commodities;

(iv) inclusion of environmental objectives in international commodity bodies and provision of information to the Standing Committee on this issue; and

(v) policies for the sustainable development of mineral-dependent economies, including policies for the sound macroeconomic management of these economies, and for the establishment in all countries concerned of an adequate legal, fiscal and regulatory framework for the management of mineral resources. Assistance would be required for the success of such policies.

The Committee noted that an international conference on development, environment and mining would be held in June 1994; it welcomed the participation by UNCTAD in the organization of the conference and requested the secretariat to prepare a report on the conference for submission to the third session of the Committee.

17. The Committee recognized the importance of past and on-going technical co-operation activities of the secretariat in the field of commodities and recommended that the technical cooperation activities of the secretariat in the field of commodities be continued and strengthened. To this effect, the Committee:

(i) called for new initiatives to identify additional sources of financial and technical support for UNCTAD-executed commodities programmes, as identified in paragraph 44 of document TD/B/CN.1/12;

(ii) called for increased voluntary contributions to UNCTAD's technical cooperation projects in the field of commodities;

(iii) recommended that particular attention be given to avoiding duplication with other United Nations entities, relevant international organizations and agencies, to ensuring the efficiency and continuity of a project as well as the transparency of its budget and to consolidating the concept of "burden-sharing";

(iv) called for the allocation of technical assistance resources for

alleviating the commodity problems faced by the developing countries, particularly the least developed among them;

(v) supported the initiative of the secretariat to undertake a comprehensive survey of technical co-operation needs of member States in the commodities field, and to report thereon at the third session of the Standing Committee, as proposed in paragraph 45 of document TD/B/CN.1/12.